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SEPTEMBER 1, 1986 VOL. 114, NO. 5

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The camera-shy Gallo brothers posed for John Harding's cover photo at their Modesto, California, corporate headquarters.
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in racing. Says Cooper: "We should never forget that this sport is built on two four-letter words—hope and luck."

On the up cycle with biker Greg LeMond

■ For the already resurgent bicycle industry, Greg LeMond's historic victory in the Tour de France—the first ever by an American in bike racing's top event—has come like a second wind. Bikers speak of LeMond's triumph in the awed tones usually reserved for religious experiences and natural disasters. Says Bill Wilkinson, deputy director of the Bicycle Federation of America: "This is the biggest thing that's happened in U.S. cycling this century. Our riders are giving cycling an identity in this country." One certain result: greater corporate backing than ever before for cycling as an all-American sport.

Bicycling began its revival earlier this decade, picking up speed after U.S. riders captured nine medals, including four golds, at the 1984 Olympics in Los Angeles. The industry's sales hit $1.5 billion in 1985 as Americans bought 11.4 million bikes, a 13% increase over 1984.

John Mariotti, president of **Huffy Bicycles**, an Ohio company that makes LeMond's racing bikes as well as models that can be found in the racks at suburban grade schools, accounts readily for the acceleration. He says replacement sales have been good, baby-boom bikers are now buying bicycles for their children, and many health-conscious Americans are turning from running to biking. Huffy expects an immediate surge from LeMond's victory. The company recently introduced a bicycle, the Elite, designed with LeMond's participation. The not too elite price: $250.

American riders expect to cash in as U.S. corporations pump money into the sport. A number of American companies played prominent roles in this year's Tour de France, including **7-Eleven** stores, which helped sponsor a team, **Coca-Cola**, **Hewlett-Packard**, and **CBS**. LeMond, who has been racing for a French team, La Vie Claire, says he is looking for American sponsors for a team of his own. The line forms to the right.

President Reagan gets a winning jersey from Greg LeMond.

Software suit

■ A suit filed against **Lotus Development Corp.**, maker of the best-selling Lotus 1-2-3 program, has thrown the dread shadow of product liability over computer software manufacturers. The suit was filed by **James A. Cummings Inc.**, a Fort Lauderdale builder, which used Lotus's Symphony spreadsheet program to calculate its bid on a $3-million office project for **Florida Power & Light** last year.

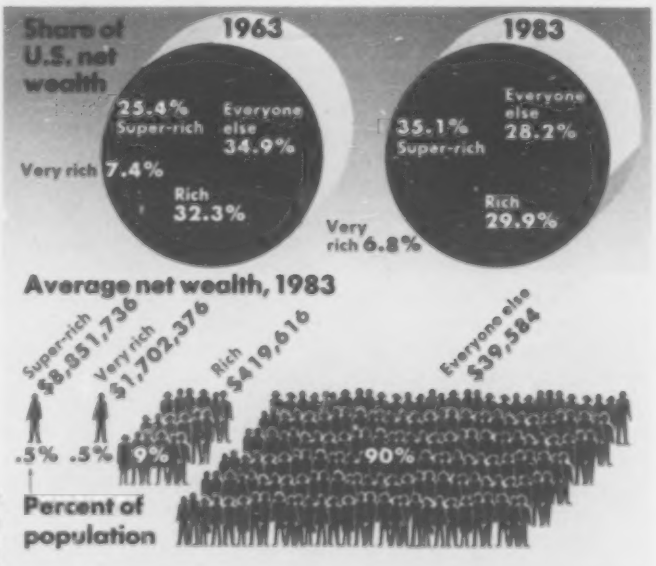
Shortly after it won the contract, Cummings discovered that it had left $254,000 in administrative costs out of its bid. The company blames the omission on a mistake in addition that it says was caused by unclear instructions and a defect in the program. It wants Lotus to reimburse it for the $254,000. A Lotus spokeswoman says there was no defect and Cummings did not follow the program's instructions.

"You can't view software as a toaster that either works or doesn't," says Edward M. Esber, president and chief executive of **Ashton-Tate**, maker of the popular dBASE and other programs. "What a computer product can do is directly related to the skill of the user."

The rich get richer . . . or somebody does

■ Are the rich getting richer, or is somebody getting rich who did not used to be? That question is not addressed in a new study on wealth by the Democratic staff of Congress's Joint Economic Committee. The study says that between 1963 and 1983 the "super-rich," the top one-half of 1% of American families, increased their share of U.S. net wealth from 25% to 35%. The definition of super-rich was odd: Net assets of $2.5 million, the number needed to qualify, is barely enough to support a decent pad in Georgetown, where a lot of Democrats hang out. In calculating wealth, the study ignores

You may be richer than you feel, according to criteria used by Democratic congressional aides in a study of U.S. wealth. They concluded that 0.5% of the population are "super-rich," controlling 35.1% of the nation's wealth.



STAFF *David Kirkpatrick, Michael Rogers, Patricia Sellers, H. John Steinbreder*

the present value of benefits due under Social Security and private pension plans, a major sustenance for the middle class during retirement.

Today's rich were not necessarily rich 20 years ago, points out Dallas billionaire Ross Perot. "Wealth moves into different hands," says Perot, 56, who founded **Electronic Data Systems** with $1,000 in 1962 and sold it for $2.5 billion to **General Motors** in 1984. "Neither [**Wal-Mart Stores** Chairman] Sam Walton nor I, who apparently are America's two wealthiest men, had much money at all 20 years ago."

Executive director Scott Lilly of the Joint Economic Committee says he does not know whether 1983's super-rich were rich or poor in 1963, or why the redistribution of wealth occurred. He believes, though, the reason may be changing demographics. "We have more young families than we did 20 years ago, and young families have less wealth," he says. "We also have more older families, and they generally have more wealth." Other possibilities: changes in inheritance and capital gains taxes and high real interest rates. "Money makes money," says Lilly, "but it makes a lot more money now than almost any other time in recent history."

Signals

■ The House of Representatives failed, by a vote of 276 to 149, to override President Reagan's veto of a bill that would have severely restricted textile imports.

▶ In early August an administrative law judge dismissed Federal Trade Commission charges that **R.J. Reynolds Tobacco Co.** illegally misled the public in an advertisement about the health effects of smoking. He said the ad, which ran last year in national publications, was an "expression of opinion" fully protected by the First Amendment and not "commercial speech" subject to FTC regulations.

▶ Robert E. Brennan, 42, controversial chairman and chief executive of **First Jersey Securities**, resigned his management jobs at the brokerage house. But no one thinks he is really stepping aside: He not only is remaining on the board, but also is sole owner of the firm he founded in 1974. Brennan says his resignation was not provoked by his recurring battles with the Securities and Exchange Commission. He may enter politics.

NOW HEAR THIS

■ **JOHN H. GUTFREUND,** 56, chairman of Salomon Inc., on Sumitomo Bank's plan to buy 12.5% of Goldman Sachs & Co.:
"Goldman won't be unique in selling to a Japanese institution, only the first."

■ **ROELOF F. BOTHA,** 54, foreign minister of South Africa, after imposing trade restrictions on black African nations in reprisal for their support of sanctions:
"The blacks will pay, not Australia, the Commonwealth, the European Community."

■ **PRESTON ROBERT TISCH,** 60, president of Loews Corp., on his appointment as Postmaster General:
"I know my mail is delivered on time. I assume everyone else's is also."

The NFL Gets Off Cheap

■ The National Football League faced a crowded field of business problems, the most urgent being an antitrust suit brought by the upstart United States Football League (FORTUNE, August 4). The field started to clear when a New York federal court jury found against the NFL on one count—that it is a monopoly—but exonerated it on eight others and assessed damages of $1. Under antitrust law, that will be tripled to the grand sum of $3. The USFL vowed to continue the court fight, but was forced to cancel this fall's season. Sports economist Louis Guth, who has consulted for the USFL, says the league's disappearance would strengthen the NFL's hand in two sets of crucial negotiations: with the TV networks, by reducing the glut of football on the screen, and with players, by shrinking the market for their expensive services.

The U.S. and Japan Chip Out a Chip Pact

■ U.S. makers of computer memories cheered when the Commerce Department proposed duties to punish Japanese firms for underpricing memory chips in the U.S., but the American manufacturers called for further government measures to help them compete in Japan (FORTUNE, May 12). At the end of July President Reagan announced he was suspending most of the proposed duties as part of an unprecedented five-year bilateral agreement. In return the Japanese government will help police the price of exports and take steps to help U.S. chipmakers increase their share of the Japanese market, now around 9%. But will the steps be effective? "Japanese companies basically control the market there, and they have no incentive to cooperate," says Michael Borrus, an industry expert at the University of California at Berkeley. For U.S. companies the big gain will be at home, where at least a short respite from aggressive Japanese pricing is likely.

Bright Hopes for Movie Makeup

■ Film owners wanted **Color Systems Technology Inc.** to turn old black-and-white movies into newish-looking color videos, and the price of the Los Angeles company's stock doubled to $10 a share after its first public offering last year (Companies to Watch, March 3). Coloring movies has become increasingly controversial. A bit of adornment may not be unseemly for a wacky comedy like *The Absent-Minded Professor*, one of CST's early projects, but critics worry about debasing classics like *Citizen Kane*. Still, contracts keep rolling in. The company has orders to color up to 100 movies for MGM, 16 Shirley Temple movies, and miscellaneous TV serials. It plans to acquire and begin coloring its own library of films. Neither esthetic quibbles nor a net loss of 99 cents a share in the 12 months ended March 31 have discouraged investors. CST stock recently sold at $26 a share. A secondary offering is imminent.

— David Kirkpatrick

HOW GALLO CRUSHES THE COMPETITION

Julio pursues the perfect grape. Ernest has written the book on selling the wine. The 300-page manual tells distributors how to stack shelves (put impulse items above the belt) and win favor with retailers (save off-color jokes for peddling pornography). ■ *by Jaclyn Fierman*

PEACOCKS ROAM free on the great expanse of lawn at the 250-acre E.&J. Gallo Winery in Modesto, California. So do guinea fowl, quail, and peahens. But don't let the scenery mislead you. The menagerie is a most uncharacteristic indulgence by the world's largest wine producer. When it comes to business, the brothers Ernest and Julio Gallo brook neither waste nor weakness. Just ask the scores of companies, large and small, that over the past five decades have made the mistake of venturing onto their turf.

Age may be weakening their hearing and sight, but Ernest, 77, and Julio, 76, have not lost their desperate will to dominate. Nor their unerring ability to do so. Though their illustrious careers are drawing to a close during the toughest time for U.S. wine makers since Prohibition, their corporate offspring continues to thrive.

What is Gallo's secret? "A constant striving for perfection in every aspect of our business," says Ernest. That may sound self-serving, but it is in large part true. Plainly put, Ernest and Julio are better at the nuts and bolts of the wine business than anyone else in the world. They are more resourceful, more thorough, more exacting. And they are not afraid to exercise their power over grape growers, distributors, or anyone else. "I sometimes feel like an Olympic runner who gets mad at his coach," says David Terk, an independent distributor in Abilene, Texas. "Gallo pushes so hard you end up working more than you want."

Not that the Gallos face no challenges. The most unusual by far comes from their younger brother, Joseph, 66. In a drama worthy of the wine-country soap opera *Falcon*

Julio Gallo, *still a hands-on manager at 76, tramps through the vineyards almost daily.*

PHOTOGRAPHS BY JOHN HARDING

Crest, Joseph is suing for a one-third interest in the winery. He claims that the winery is an outgrowth of their father's wine-grape business and that his big brothers cheated him out of his rightful inheritance.

Ernest and Julio's other problems are more mundane. The national obsession with fitness and the crackdown on drunk driving have had a sobering effect on wine producers, Gallo included. Americans drank 6.5% less table wine in 1985 than in 1984 and will probably cut consumption 5% more this year, according to *Impact*, an industry newsletter. The wine industry's smartest response to the new abstinence is coolers, fruity beverages with a splash of wine and roughly the alcohol content of beer. Gallo, in typical fashion, has outsmarted everyone: Its year-old cooler, Bartles & Jaymes, is No. 1.

ANOTHER CHALLENGE comes from another trend among wine drinkers—the swing to pricey table wines made from the finest grapes. Americans are demanding better quality than ever before, and premium wines have raised their share of the $8.3-billion-a-year business from 8% in 1980 to 20% today. Gallo sells more premium wine than any other producer, but its growth in this category is limited because it lacks snob appeal. The name Gallo, which means rooster in Italian, is associated with screw tops and bottles in paper bags. The brothers are battling to upgrade their image with the same vengeance they bring to every war they wage.

For now they can take heart in making the most, if not the best, wine in the world. The joke goes that Gallo spills more than anyone else sells. The truth is not far off. Last year Gallo shipped over 150 million gallons of wine, according to the *Gomberg-Fredrikson Report*, an authoritative industry newsletter. Its most popular brands are Chablis Blanc, Hearty Burgundy, Carlo Rossi, and other low-priced jug wines, which together account for a commanding 31% of the volume in that end of the market. The brothers also sell more champagne (André), brandy (E.&J.), sherry, vermouth, and port than anyone else. All told, they buy roughly 30% of California's annual wine-grape harvest and produce one of every four bottles of wine sold in the U.S.

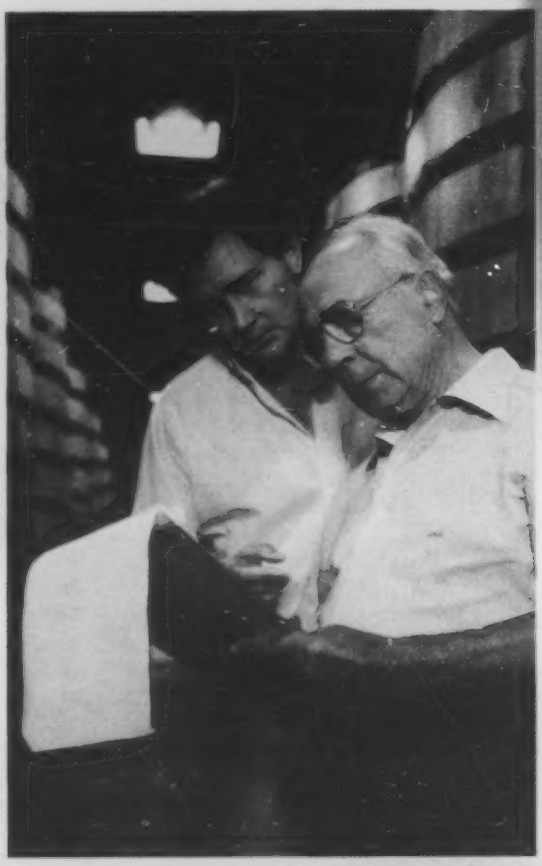
They also squeeze profits from the wine business while others come up dry. The winery is privately owned by Ernest, Julio, and their fecund families—between them the brothers have four children, 20 grandchildren, and six great-grandchildren. Three children, a son-in-law, and four grandchildren work for the company, but share little of Ernest and Julio's power.

The Gallos talked to FORTUNE at length about their business, the first time in over a decade that they opened up to a major publication. (Ernest, who is as timid as a fighting cock, says he fears one thing: reporters.) But they keep financial details tightly corked. Based on interviews with dozens of current and former employees, industry experts, and competitors, FORTUNE estimates that Gallo earns at least $50 million a year on sales of roughly $1 billion. By comparison, Seagram, the nation's largest distillery and second-largest winery, booked roughly $350 million in wine revenues last year and lost money on

Ernest Gallo, *77, crowds his office with statues of the humble rooster, called* gallo *in Italian. The company's chief marketer has plenty to crow about.*

In Quest of a Greater Grape

Perfecting the quality of Gallo wines has been Julio's lifetime goal. That's a sherry he's holding at right. The company's best wines come from grapes grown in California's lush Sonoma County, which Julio visits frequently in the company helicopter with his son Robert (seated next to him). Below, Julio and Robert peruse plans for developing additional prime acreage. The wines age in huge oak barrels (far right), where Julio and J. B. Olyphant, a vice president, review inventory data.



its best-selling table wines, Paul Masson and Taylor California Cellars. Gallo's other main competitors, Almadén, owned by National Distillers & Chemical Corp., and Inglenook, owned by Heublein, are making money, but not much.

Private ownership and staggering volume contribute to Gallo's success. The company can wrest market share from competitors by settling for paper-thin margins and occasional losses that stockholders of publicly held companies would not tolerate for long. Moreover, Gallo does not have disparate claims on its resources and can devote all its energy to wine. "Unlike our major competition," says Ernest, "wine is our only business."

No other company could afford to replicate the degree of vertical integration Gallo has built up over the years. The brothers own Fairbanks Trucking Co., one of the largest intrastate truckers in California. Its 200 semis and 500 trailers are constantly hauling wine out of Modesto and raw materials back in—including sand from around the state and lime from Gallo's quarry east of Sacramento. Alone among wine producers, Gallo makes bottles—two million a day—and its Midcal Aluminum Co. spews out screw tops as fast as the bottles are filled.

Most of the country's 1,300 or so wineries concentrate on production to the neglect of marketing. They entrust their fate with consumers to independent distributors who work for several competing producers. Most distributors, in turn, figure their job is done once they take orders and make deliveries to grocery and liquor stores. Gallo, by contrast, participates in every aspect of selling short of whispering in the ear of each imbiber. The company owns its distributors in about a dozen markets and probably would buy many of the more than 300 independents who handle its wines if laws in most states did not prohibit doing so.

Gallo's power elicits emotions from admiration to hate from just about everyone touched by it. "The hate part," says a Sonoma Valley grower, "is getting rejected by Gallo at the crusher"—the place where growers bring their grapes to be graded, sold, and eventually crushed into juice and fermented. Distributors feel hatred or something near it if they are unceremoniously dumped, as many have been for failing to satisfy Ernest's demanding requirements. Competitors hate being singled out as the next rival to be vanquished. Says a cowed Stuart Bewley, 33, who helped start California Cooler five years ago: "They aim all their guns at once." Bewley's brand was the market leader in wine coolers until Gallo stormed into the business. Bewley sold California Cooler to Brown-Forman last year but still manages the operation.

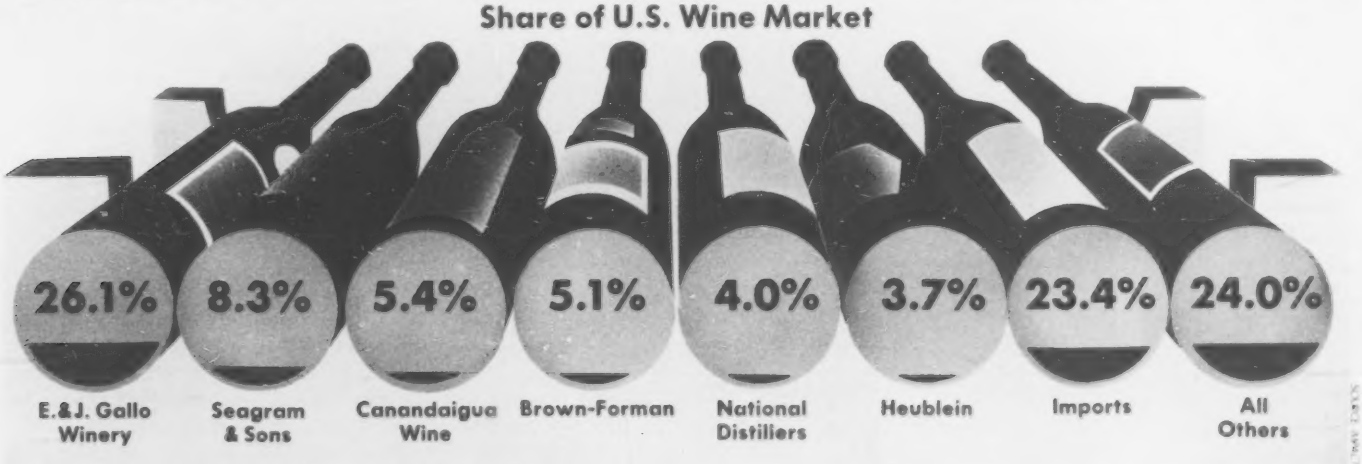
Yet even competitors thank the Gallos for expanding the wine market. While the Gallos may not make the world's best wine, they have lifted the U.S. standard for low-priced table wine well above that served in Italy or France. Says Edgar Bronfman Jr., 31, president of the House of Seagram: "I have tremendous respect for the Gallos. They have created an environment in which we have to learn to make money."

E.&J. Gallo Winery is a divided kingdom. Julio is president and oversees production. Big brother Ernest is chairman and rules over marketing, sales, and distribution. The two steer clear of each other, conducting business on separate floors. "We don't have everyday contact," says Julio, whose domain is the first floor at the neoclassic headquarters some natives call Parthenon West. Ernest holds court upstairs. The brothers mesh well despite the division: Julio's goal is to make more wine than Ernest can sell, Ernest's to sell more than Julio can make.

Thick-fingered and full-faced, Julio aptly describes himself as a farmer at heart. "I like to walk in the fields with the old-timers," he says. "I feel at home in the vineyards." Make no mistake, though, Julio is a patrician farmer, dressed not in overalls and work boots but in linen trousers and slightly scuffed wing tips. His office is elegantly appointed, with a solid oak desk and inlaid wooden artworks depicting harvest scenes in the French countryside. His modern ranch house down the road from the winery is festooned with images of grapes, from jade carvings along the walls to the silverware and place mats on his table.

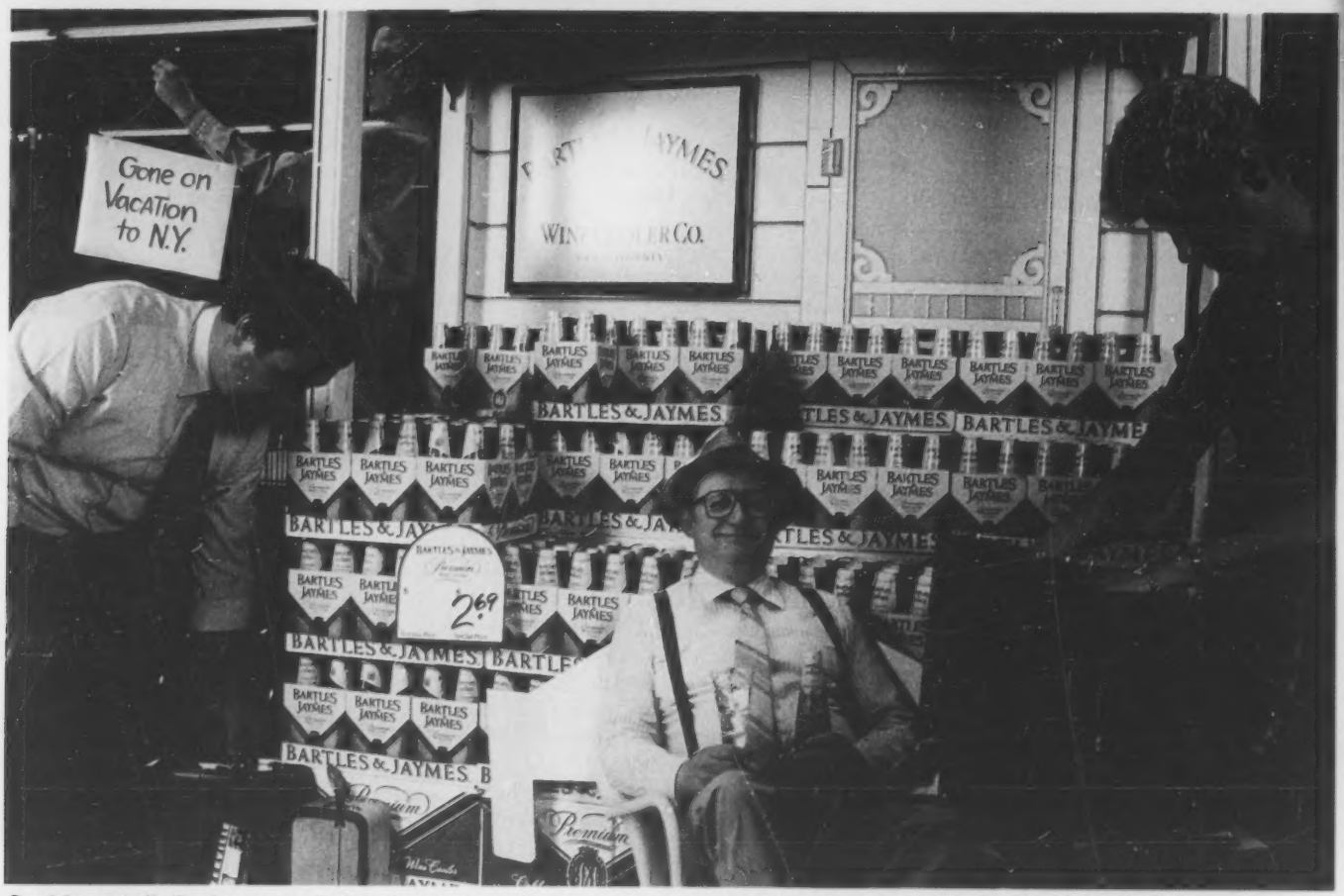
ERNEST CONDUCTS business in a setting cluttered with mementos not from the fields but from the world of selling. He has a framed *New Yorker* cartoon that shows two couples drinking wine in a restaurant. The caption reads: "Surprisingly good, isn't it? It's Gallo. Mort and I simply got tired of being snobs." Expressions of fierce pride abound, from the

REPORTER ASSOCIATE *Kate Ballen*



Keeping Competitors in the Cellar

Gallo, with 26.1% of the U.S. market, sold more wine last year than its next several competitors combined. Imported wines captured 23.4% of U.S. sales in 1985. But imports have slipped lately due to the weakened dollar, news of contaminants in a few brands, and the popularity of wine coolers.



Grabby retail displays *are a Gallo hallmark. Here salesmen set up cardboard replicas of Bartles (in the rocker) and Jaymes (holding the sign).*

Gallo-green crushed-velvet couch to an ambitious collection of glass, metal, and ceramic statuettes of *galli.* Paler, grittier, and less courtly than his brother, Ernest cares little for social or decorative amenities. "We don't socialize much," says the more affable Julio. "There's not much to talk about."

Ernest wouldn't waste time schmoozing anyway. He would rather interrogate than converse. He bridles when questioned and has the habit of answering with questions of his own. He is after all the information he can get, and is intolerant when someone does not deliver. "If you try to cover up, he'll expose you," says George Frank, who directed Gallo's East Coast sales for three decades and retired last year.

Ernest's employees toil much harder than most because they know the boss will try to catch them off guard. "I never knew if he was checking on the marketplace or on me," says Frank. On frequent trips around the country, Ernest orders a distributor to pick him up at eight in the morning, map in hand. Mindful of neither distance nor direction, he points to several towns where he wants to check the positioning of his products in stores. "Ernest doesn't want you to take him on a tour," says Laurence Weinstein, a distributor in Madison, Wisconsin. "If he sees you turning left, he'll tell you to turn right."

The distributors behave more like family members than independents because most owe their success to the winery. "Ernest picked distributors who were hungry," says Frank. "They knew if they failed with Gallo, they might be out on the street." Once Ernest chooses a distributor, he or his troops plan strategy with him down to the last detail, analyzing traffic patterns in every store in the district and the number of Gallo cases each should stock.

ERNEST ENCOURAGES distributors to hire a separate sales force to sell his products alone. When Texas distributor David Terk decided it wasn't worth the extra money to employ a special Gallo team, he and Ernest severed ties. Terk eventually came around to Gallo's way of thinking and has been reinstated. "If you follow Ernest's advice," Terk says, "he'll make you rich." Ernest also tries to persuade distributors to sell his wines exclusively. "We never told distributors to throw out Gallo competitors," says Frank. "But we might have asked them how they planned to do justice if they carried two competing brands."

The Federal Trade Commission objected to that friendly persuasion ten years ago, charging Gallo with unfair competition. Gallo signed a consent order that prohibited it from punishing distributors for selling competing brands and from requiring them to disclose sales figures. The FTC set aside the order three years ago after Gallo argued that the market had grown more competitive and that the order was giving other wine makers an unfair advantage: They were free to set up exclusive deals with distributors.

Now that Gallo can regiment its distributors once again, it rarely hears a grumble out of them. One bold exception: Ohio distributor Bernard Rutman sued Gallo last year, alleging that the company violated antitrust

laws when it dumped him for no good reason after 40 years of loyal service. Without Gallo products, which Rutman referred to as "call items" or "door openers," he lost several retail accounts. Rutman claimed that Gallo's action had reduced competition because he could no longer afford the sales force needed to sell a broad range of products. Gallo fought the charges and won, arguing that it was not the winery's responsibility to open doors for competitors. Rutman is appealing.

Ernest finds distributors who will open doors for *him*. Aggressive salesmen are crucial to Gallo's success because they are the winery's link to retailers, and retailers have the last crack at influencing consumers. "Seagram," concedes Edgar Bronfman Jr., "has typically pushed everything to the distributor and left it to him to deal with the stores." Ernest makes certain that his distributors deal with the stores like no others. They build floor displays, lift cases, and dust the bottles on the shelves. "If you turn your back on a Gallo salesman," says a manager of a San Francisco liquor store, "he'll turn the place into a Gallo outlet."

Gallo leaves nothing to chance—and very little to the imagination. Required reading and rereading for new salesmen is Gallo's 300-page training manual. More graphic than the *Kamasutra*, it describes and diagrams every conceivable angle of the wine business. "As a sales representative of Gallo wine," the tome begins, "you are the man that Ernest and Julio Gallo depend on to sell retailers the merchandising ideas that sell Gallo wine to consumers."

What follow are 16 dizzying chapters, each ending with a quiz. A section on how to display Gallo products in stores spells out which items to place at eye level (the most highly advertised ones) and which to position above the belt (impulse items). Another details how much shelf space Gallo brands should occupy (seven feet on each of five shelves, the largest area the eye can easily scan). Maintaining shelves the Gallo way requires a ten-point checklist (No. 7: "Wherever there is a decided price advantage in buying a larger size, the larger size should be placed to the right of the smaller size."). The "complete sales call" would be incomplete unless all ten steps from another checklist were taken (No. 6: "It's time to think . . . You should know what you'd like to say and how you're going to say it to *this* retailer.").

Among the trove of sales tips: "An off-color joke may be great if you're selling pornography, but it's a little difficult to use this opener . . . to sell the retailer on cold-box placement for wine." The retail world is made up of six types of buyers, the manual explains. They range from "the silent type (he just listens)" to "the aggressive type (he's looking for a fight)." If you run into the silent type, "avoid embarrassing questions." When you meet up with an aggressive one, "let him win the battle, but you win the war."

Gallo hasn't lost a war yet. Even Coca-Cola, no wimp at marketing, surrendered in 1983 after six years of butting barrels with the wine Goliath. When Coke got into the wine business in 1977, consumption had been rising 7% a year. But that trend soon fizzled. The profit margins Coke was used to in soda never materialized for wine, not even close. By the time Coke sold its Wine Spectrum unit to Seagram for more than $200 million, it had overpromoted and underpriced its Taylor California Cellars.

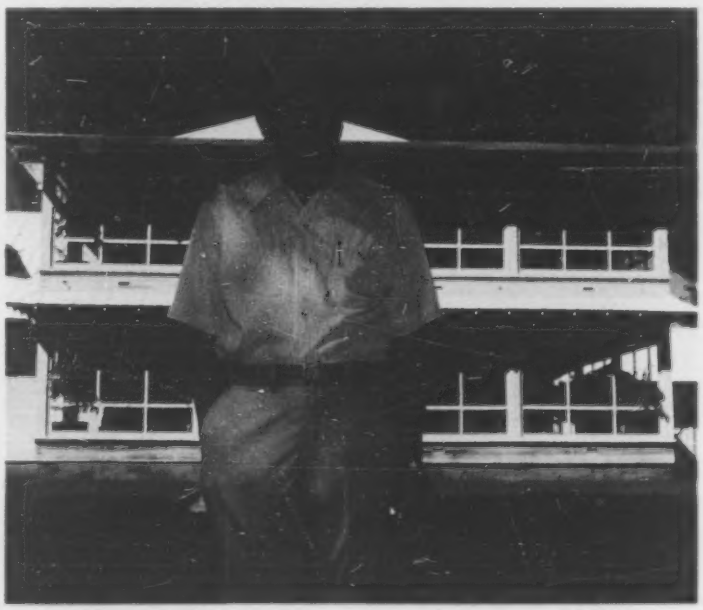
Pleasing the plebeian palate in Podunk used to be all that mattered in the wine business, and no one did that better than Gallo. But today even Podunk has wine snobs. Having to prove themselves all over again is a nasty twist of fate for the Gallos, who have devoted decades to upgrading everyday drinking wine for Americans. "We have varietals we think are the very best," Julio insists. Not Chateau Lafite, to be sure, but certainly respectable. Some wine connoisseurs compare Gallo's varietals to competing brands that sell for twice as much.

The screw-top stigma hurts, but the Gallo brothers learned early how bitter the wine business can be. They got their first taste as young boys, toiling in their father Joseph's Modesto vineyard in their spare time. After Julio finished high school and Ernest graduated from Modesto Junior College, they worked full time for their father. "He believed in hard work and no play," says Julio. "None at all."

An immigrant from the Piedmont region in northwest Italy, Joseph Gallo was a small-time grape grower and shipper. Prohibition did not put him out of work: The government permitted wine for medicinal and religious use. But the Depression took a tragic toll. The Gallo business almost went under, and in the spring of 1933 Joseph shot his wife and reportedly chased Ernest and Julio across his fields waving a shotgun. After they escaped, Joseph killed himself. Ernest is reminded of the tragedy daily: His childhood residence, a stucco house with a pillared porch, is on the road from the winery to his present home, a modest bungalow with a security guard out front. Julio relived the horror years later when his second son, Philip, then a teenager, committed suicide.

Prohibition ended the same year that their parents died, and the Gallos, then in their early 20s, decided to switch from growing grapes to producing wine. Problem was, they had no idea how to make the stuff. They found instructions in two thin pamphlets in the Modesto Public Library and, with $5,900.23 to their names, burst out of the post-Prohibition starting gate with 600 other newly formed wineries. "My confidence," recalls Ernest, "was unlimited."

Finding customers was the next hurdle, and Ernest was born with an instinct for that. A Chicago distributor wrote to newly licensed California wineries, inviting them to send him samples. Ernest went the



Joseph Gallo *says he is entitled to one-third of his brothers' wine business.*

Ernest's sons, *David (left) and Joseph, work with him in marketing.*

Julio's son-in-law, *James Coleman, chats with Julio's son Robert.*

extra mile. He boarded a plane for Chicago, met the man at his office, and sold him 6,000 gallons at 50 cents a gallon. Ernest continued east and sold the rest of the first year's production for a profit of $34,000. The Gallos initially sold wine in bulk to bottlers, but in 1938 they started doing their own bottling under the Gallo label, a far more profitable venture. Sales grew unabated for years.

"Success in life," says the insular Ernest, "depends on who your parents were and what circumstances you grew up in." Hard work was Joseph Gallo's ethic and it became Ernest's as well. Driving himself and others is a survival instinct for Ernest. But perhaps because his father ultimately failed, Ernest also believes that hard work alone is not enough. "It boils down to luck," he says of his and Julio's success. "Circumstances could have been otherwise."

AS LUCK would have it, the Gallos had their first phenomenal success with a high-alcohol, lemon-flavored beverage they began selling in the late 1950s. A radio jingle sent the stuff to the top of the charts on skid rows across the country: "What's the word? Thunderbird. How's it sold? Good and cold. What's the jive? Bird's alive. What's the price? Thirty twice." But Thunderbird also left Gallo with a gutter image it has been hard pressed to shake.

Each in his own way, the Gallos are fighting to change that. Julio may be more easygoing than Ernest, but he is no pushover when it comes to getting what he wants from growers. Says Frank, Gallo's former East Coast executive: "He works with grapes as if he's pursuing the Holy Grail." With the help of graduates from California's top oenology schools, Julio has experimented with hundreds of varieties over the years. In the 1960s he made an unprecedented offer of 15-year contracts to growers who would rip up their vineyards and replant better grapes. Julio got his better grapes, and he also got an assured supply of his most essential raw material. Unlike small wineries, which grow the bulk of their grapes, Gallo buys more than 95% of the grapes it crushes.

Growing for Gallo is a mixed blessing. The 1,500 Gallo growers know they have a home for their grapes every season because Gallo's needs are so vast. But they are never sure how much they will get paid until they get to one of Gallo's three grape-crushing and fermenting operations: the Frei Brothers winery in Sonoma County, which Gallo bought from the Frei family in 1977, or the Livingston and Fresno plants in San Joaquin Valley. If grapes do not meet standards for Gallo's top-quality wines—handpicked, the right color, the proper acid and sugar balance—the winery downgrades them for use in other products and slashes the price. The *Healdsburg Tribune*, a newspaper in Sonoma County, has condemned the Gallos and called for state regulation of grading. An editorial claimed growers had been victimized by "sudden devaluation or outright rejection of their grapes, always with the company's take-it-or-leave-it attitude . . . Most growers have little choice but to take it."

One who chose not to take it was Steven Sommer, a Sonoma grower who filed a grievance with the California Department of Agriculture in 1984 after Gallo downgraded most of his 50-ton harvest from $475 a ton to $275. Gallo claimed the grapes were off-color and therefore would not yield flavorful wine. "It was just the way the sun was shining on them," Sommer insisted. The state ruled in Gallo's favor: Since the growers had no written contract stating otherwise, Gallo had the right to judge grapes however it chose. Sommer's protest served a purpose, though. Gallo now gives one-year contracts in Sonoma County that spell out its standards. "The old-timers always did business on a handshake," says Julio. "The young growers want things in writing." Sommer, 36, has gone into business for himself, producing wine from the grapes he grows.

JULIO INSISTS on rigorous standards in Modesto, where all Gallo products are blended, bottled, and tasted every morning at 11 o'clock. Gallo was among the first producers to store wine in stainless steel containers instead of the usual redwood or concrete casks that can breed bad-tasting bacteria. Like giant thermos bottles, tanks at Gallo's three crushers and at the Modesto headquarters protect 300 million gallons of wine from the searing heat. Passers-by could easily mistake the Modesto plant for an oil refinery. There's no sign anywhere that says Gallo. "We know where the place is," Julio explains.

The refinery image is a sore point with Julio. "It was never my ambition to run the biggest winery in the world," he says. "It doesn't impress me at all." Unlike other wineries, Gallo offers no tours to the public. Rather than lead the rare visitor through the huge outdoor storage area, Julio prefers to

sweep him underground to see his new oak aging cellar. Gallo dug the crypt in deference to those who prefer their wine aged and dated, not bottled in an unsexy jug and blended to taste exactly the same today as last year and the year before. Some three million gallons of wine can be aged in the cool cellar, in row upon row of 12-foot casks, made mostly from Yugoslav oak.

But changing Gallo's image is really an aboveground proposition, and Ernest is throwing more than $40 million into advertising this year to get the quality message to consumers. A new television campaign could be powerful enough to finally overcome the Thunderbird association. It features sensuous, slow-moving images of ethnic weddings, sunlit vineyards, and crystal goblets, to a mesmerizing score by Vangelis, the Academy Award–winning composer for the movie *Chariots of Fire.*

The new image is being crafted by Hal Riney, a San Francisco ad man with an agency bearing his name. Riney is also the genius behind those fictional farmers, Frank Bartles and Ed Jaymes, who told us in their early ads about how they put their orchard and vineyard together to make a premium wine cooler. "So Ed took out a second on his house," says poker-faced Frank, "and wrote to Harvard for an MBA." The pair was recently seen in New York City eating "big doughnuts" (the locals call them bagels).

Bartles & Jaymes has hurtled to the top of a high heap—there are over 100 coolers on the market. Cooler sales reached almost 40 million cases last year, and Marvin Shanken, publisher of *Impact,* predicts that consumption could swell to 90 million cases and constitute a third of the total wine market by 1990. The wine in most coolers is made from the cheapest grapes, and initially the mix was far more profitable than straight wine. But in typical fashion, Gallo devastated everyone else's profit margins when it entered the war. "We've had to double our ad spending and put our products on promotion a lot more often," says California Cooler's Bewley.

Another major accomplishment for Hal Riney has been getting along with Ernest Gallo. Before Riney, scores of agencies tried and failed to hack Ernest's ways. That kind of turnover is legendary at Gallo. A few employees, like Frank, stay forever, but many leave after a few years with whatever tricks they've managed to learn from one of America's best marketing minds. A longtime Gallo executive puts his finger on a problem this has caused: "There's a whole level missing at Gallo in terms of age."

THE GALLOS will not tolerate being crossed, even by family. Their battle with brother Joseph, who raises cattle and grows grapes, started when Joseph began selling cheese under the Gallo name. Ernest and Julio claimed Joseph was violating their trademark and, they say, offered him a royalty-free license to use the name. When Joseph refused, Ernest and Julio sued him for trademark infringement.

Joseph's lawyer says his research for that suit led to the discovery that the trademark dated back to the father's business. He then researched the father's estate to determine whether Joseph, who was 13 when his father killed himself, was an heir to the trademark. That search, the lawyer says, led to the discoveries that Joseph had inherited an interest in the father's business and that E.&J. Winery is an outgrowth of that business. Ernest and Julio say Joseph's claim is ridiculous, and that they started the winery with their own savings.

Ernest tries to recruit Ivy Leaguers and young MBAs—nearly all of them men. "We look for creativity, compatibility, and a sense of urgency," he says. But he doesn't give the whiz kids room to grow. Gallo graduates say the most frustrating thing about Ernest is his insistence on keeping everything secret. "I never saw a profit-and-loss statement," says Diana Kelleher, 39, who was marketing manager for several products in the early Eighties and one of the few women executives at Gallo. "Ernest wouldn't tell anyone the cost of raw materials, overhead, or packaging." Kelleher now runs a Los Angeles consulting firm.

Julio has begun to pass his scepter: His son, Robert, 52, and son-in-law, James Coleman, 50, oversee much of the day-to-day production. Ernest refuses to give anyone an aerial view of his part of the kingdom. Both his sons, David, 47, and Joseph, 45, work on his side of the business, but neither is heir apparent. Though both graduated from Notre Dame and Joseph has an MBA from Stanford, they lack their father's drive and authority. Those who have worked closely with the family say that Joseph's judgment is uneven and David's behavior occasionally bizarre. He habitually pokes his eyes and nose with paper clips.

But if Ernest's sons are less prepared to run Gallo than they should be, the problem may have more to do with his management style than their deficiencies. Ernest claims he wants people to be daring, yet his intimidating manner usually produces sycophants. He governs by a committee consisting of his sons and a handful of top executives. On most policy matters, Ernest goes around the table and asks each man for his opinion. But he usually fails to elicit their best because they try to second-guess him. Says Diana Kelleher: "The committee's need to please Ernest limits its effectiveness."

Ernest cannot bear to relinquish control. The deep-rooted need to hold on is understandable: In his world, events can get so wildly out of control that they produce the tragedies of his youth. Call his style shortsighted, even paranoid. Rest assured, though, Ernest has figured out how to sell Gallo products from the grave. He probably is well along on a manual outlining every conceivable war that could break out in the wine world and ten steps to win each one. ◼

Third-generation *employees so far all hail from Julio's side of the family.*